



Is child care a good public investment? Summary

This BRIEFing NOTE summarizes *The benefits and costs of good child care: The economic rationale for public investment in young children* (Gordon Cleveland and Michael Krashinsky, Economics, Division of Management, University of Toronto at Scarborough), available in print from the Childcare Resource and Research Unit and online at www.childcarecanada.org.

Yes, says *The benefits and costs of good child care* (Gordon Cleveland & Michael Krashinsky, 1998). This economic study concludes that for every dollar invested in high quality child care, there is a two dollar benefit to children, parents and society. The study calculates the costs and benefits of providing publicly funded early childhood care and education for **all** children 2-5 years of age—those whose mothers are in the paid workforce, as well as those whose mothers are not.

Private benefits for families; public benefits for society

Public investments in high quality early childhood care and education do not just benefit parents and children: society gains as well. Society gains significant benefits from the future effects of enhanced childhood development, economic productivity, and lower costs of supports like welfare and social services. The public benefit also comes from increased workforce participation of single mothers, as well as those in two-parent families. This produces lower social spending on families, higher tax revenues to government, and increased future economic security for mothers.

High quality child care has long-lasting effects

The benefit-cost report analyzes several studies that measure the effects of early childhood education on school performance—one of the several factors enhanced by high quality care. These studies show that, regardless of socio-economic background or mothers' employment status, children who participate in early childhood education perform significantly better in school than those who do not participate. For example, a 1987 study found that 10 year-olds with preschool experience scored significantly higher on school performance tests than their counterparts with no preschool. (School performance at 10 years correlates positively with the decision to pursue post-secondary education and with future family income.)

High quality preschool experiences are also highly beneficial for disadvantaged children. For example, high-risk children who participated in a part-day preschool and parent education program in Michigan in 1962 (the Perry Preschool Project) were found to be far more likely to complete high school, go on to college, and be gainfully employed, and less likely to commit a crime or require public assistance than their counterparts who did not participate.

Effects on mothers' employment

Some mothers with young children do not participate in the paid labour force because child care is too expensive. Single mothers are likely to be the most sensitive to child care costs. According to one study, nearly 40 per cent of single mothers in the paid labour force say they would have to quit their jobs if their child care costs increased by 25 per cent.

Other studies reviewed found that if child care costs were fully subsidized, the rate of full-time employment for mothers would increase from 29 per cent to 52 per cent. This finding is even more dramatic in a lifetime context because mothers who are employed part-time for a substantial part of their lives generally have lower lifetime incomes. Many mothers work part-time because of child care considerations.

Fully subsidized child care expenses would provide an incentive for single mothers on welfare (often discouraged from joining the paid workforce because they can not afford child care) to join the paid labour force, reducing the need for welfare.

On average, women with full-time jobs earn about 60 to 70 per cent of men's wages. Yet, it appears that only about 5 per cent of this gap is pure wage discrimination. Most of the gaps are due to employment decisions associated with women's primary child-rearing responsibilities.

Effects on the child care sector

Public investment in high quality early childhood care and education would create 170,000 new jobs for child care workers in regulated child care, but 250,000 jobs in the unregulated sector would be eliminated, so the net effect on employment would be negative. However, the new jobs would be *better* jobs for caregivers (who are overwhelmingly women) and would replace very low paid employment with no benefits (unregulated care). The government would also gain extra tax and other revenues because few unregulated caregivers declare income for tax purposes.

High quality makes the difference

The benefit-cost study notes that, to enhance child development, early childhood care and education *must* be of high quality. At school age, children with high quality preschool experiences have been found to be generally:

- more considerate of others;
- less hostile;
- more co-operative;
- more socially skilled;
- more able to stay focused on a task;

- better able to follow multi-step directions and to work independently; and
- better performers on tests that measure understanding and language use.

Conversely, poor quality child care has been found to have negative effects in these areas.

A market approach does not produce high quality child care

Child care in Canada is a market-based service—essentially a private matter between parents and child care providers. There is assumed to be only a minor public interest (or benefit) in child care. A market approach works reasonably well for carrots or chocolate bars, but there are significant problems in using private markets to determine who will get child care services and who won't, and in determining what quality of child care services will be used. Many young families today cannot afford the high cost of good child care. They tend to choose cheaper options, which studies indicate are often poorer quality. Studies also show that parents may not be able to distinguish child care which enhances child development and child care which is custodial.

The market-based character of child care in Canada leaves the responsibility for choosing the quality of care and paying for it squarely in the hands of financially-squeezed young parents. The result is the widespread use of lower quality child care. The market approach does not acknowledge that there are significant public benefits (called "external benefits" by economists) from the widespread use of good quality early childhood services by children.

Calculating the child development benefits

To calculate the child development benefits, the benefit-cost study uses three sources of information:

- the evidence about child development and the ultimate effects of success in school on success in later life;
- the child care decisions of well-off parents who usually choose more expensive child care;

- estimating the value of good child care based on the current cost of a year of primary or secondary school.

The study uses these three approaches to calculate that the child development benefits of a high quality child care program would be **\$4.3 billion**.

Calculating the parental employment benefits

These benefits come in the form of increased attachment to the labour force for mothers of young children through:

- moving from part-time to full-time work;
- increased willingness and ability to accept promotion and career development opportunities;
- increased entry into the labour force; and
- increased lifetime incomes, decreased chances of poverty at the time of divorce or widowhood, and increased financial independence.

The study projects that the parental employment benefit would be **\$6.24 billion**.

Calculating the cost

To calculate the cost of publicly funded early childhood care and education, the benefit-cost study assumes:

- that a skilled caregiver will receive \$36,000 annually in wages and benefits;
- an average staff-to-child ratio of 1:7;
- staff compensation costs represent about 75 % of the operating costs of a child care centre;
- children now in public kindergarten and those whose mothers are not in the workforce will need different amounts of child care (cost calculations are done separately for children 2-4, and 5 years olds);
- there are 1.6 million children aged 2-5 in Canada, and approximately 400,000 children in each year of this category (age 2, age 3, etc.); and
- the number of hours of child care usually depends on a mother's employment status. A publicly funded high quality early childhood care and education program

will gradually increase the proportion of mothers who work full- or part-time, and therefore change the number of children who participate for different amounts of time.

Using these assumptions, the study calculates the annual cost of child care per child, projecting that the total cost of a publicly financed child care program would be **\$7.9 billion**.

However, the \$7.9 billion figure represents the gross anticipated cost not taking into account the revenue that could be redirected from the existing Child Care Expense Deduction, child care subsidies and child care allowances to parents in training programs. The study also assumes that parents will pay about 20 per cent of the total costs of the publicly funded early childhood care and education. When these elements are factored in, the net cost of the new program will be about **\$5.3 billion**, or less than 1 per cent of Canada's annual Gross Domestic Product.

Calculating the cost and benefits

While \$5.3 billion is a significant number, the benefits of this investment far exceed the cost. The study calculates that the child development benefits of a high quality child care program would be \$4.3 billion, and that the parental employment benefit would be \$6.24 billion, a total benefit of **\$10.54 billion**. It calculates that the *net* cost to operate an improved child care program would be **\$5.3 billion**. Thus, the study shows that the calculated benefits outweigh the calculated costs by a ratio of 2 to 1.

Can we afford publicly-funded, high-quality child care?

Most children in Canada do not receive adequate early childhood care and education. Children who don't get a good start aren't well prepared to participate in the advanced economy of the 21st century. In order to maintain and improve its competitive position internationally, Canada must invest in today's children. Dollars spent on education for young children are far more effective than dollars spent at any other time in a person's life. As the study shows, there's a payback of 2 to 1.

The future of our society absolutely requires good care for young children. Can we afford to spend the money for good child care? If we want an equitable and economically productive society, we can't afford *not* to.

Summary: *The benefits and costs of good child care*

This traditional economic cost-benefit analysis concludes that:

Annual benefits and cost of child care program for 2-5 year-olds	
	\$
Costs of program	
Gross cost of child care for 2-5-year-olds	7.9b
Subtract: 20% parental contribution (scaled to income)	1.6b
Subtract: current government expenditures on child care	<u>1.0b</u>
Net cost of program	5.3b
Child development benefits	
Benefits to children already in regulated care	0.4b
Benefits to children now in unregulated care	2.4b
Benefits to children in full time maternal care	<u>1.5b</u>
Total child development benefits	4.3b
Labour force benefits	
Part-time employment	2.1b
Full-time employment	<u>4.2b</u>
Total labour force benefits	6.24b
Total child development and labour force benefits	10.54b
Net benefits of child care program	5.3b
10,548 minus 5,329	
<small>Note: Not included as benefits are the value of new employment provided to child care workers and additional taxes collected due to moving child care out of the underground economy. Including these would increase the ratio of benefits to costs. In addition, cost (and benefit) estimates assume 100% take-up of the program.</small>	

- public spending for high quality child care is a good investment for Canada;
- high quality early childhood care and education has long-lasting effects on **all** children's social, intellectual and emotional development, regardless of socio-economic background or mothers' workforce participation;
- high quality child care provides not only private benefits for children and parents, but public benefits for society at large;
- the public benefit comes from the future effects of enhanced child development (higher school performance, high school completion and income) and mothers' workforce participation;
- development is enhanced only if child care is good quality; and
- high quality child care is not likely to be produced through the free market approach to child care currently employed in Canada.

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Selected CRRU Publications

- The state of data on early childhood education and care in Canada: National Data Project final report (2003)
- Fact and fantasy: Eight myths about early childhood education and care (2003)
- Early childhood education and care in Canada 2001 (5th ed., 2003)
- Child care by default or design? An exploration of differences between non-profit and for-profit Canadian child care centres using the *You Bet I Care!* data sets (2002)
- An integrated approach to early childhood education and care: A preliminary study (2001)